



**Final Minutes  
Regular Endowment Fund Investment Board (EFIB) Meeting  
December 8, 2003**

The regular meeting of the Endowment Fund Investment Board was held on Monday, December 8, 2003. Chairman M. Dean Buffington called the meeting to order at 10:38 a.m. and recognized that a quorum was present.

**Members Present:**

M. Dean Buffington  
Representative William W. Deal  
Gavin Gee  
Tom Kealey  
Senator Brad Little  
Dr. Rick Miller  
William D. Mitchell  
John Taylor  
Parker G. Woodall

**Staff Present:**

Matthew Haertzen  
Connie Eshelman  
Andrew Potter  
Angela Zirschky

**Guests:**

Doug Bates, Clearwater Investment Advisors  
John Pickett, RBC Dain Rauscher  
Richelle Sugiyama, PERSI

**1. Minutes of August 21, 2003 Regular Meeting: Approved**

Matthew Haertzen asked that the minutes be amended to record that 1) Board Member Tom Kealey was present and 2) Change the language under "Class Act Litigation" to state that Mr. Taylor abstained from voting due to business interest and not personal interest. Pending this change, a motion was made by Parker Woodall, second by John Taylor to approve August 21, 2003 Regular Meeting Minutes. The motion carried unanimously.

**2. State Insurance Fund (SIF) Reports: *Staffed by Matthew Haertzen, Investment Manager, EFIB, and John Pickett, RBC Dain Rauscher***

John Pickett reported that the State Insurance Fund total portfolio is in-line with policy. Total equity market value was reported at \$38,993,858 and total fixed income was reported at \$287,116,918 respectively as of September 30, 2003. John also reported that the State Insurance Fund moved to a more diversified portfolio in August. The portfolio is now structured more efficiently.

**Manager Summaries**

Strong Capital Management was terminated, and the funds have been indexed while a search for a suitable replacement is conducted.

**3. Judges' Retirement System (JRS) Reports: Staffed by Matthew Haertzen, Investment Manager, EFIB**

Matthew Haertzen reported that he received preliminary approval from the Judges' Committee to replace current equity manager Tom Johnson Investment Management, Inc.

Peer Comparisons

Tom Johnson Investment Management and Rainier Investment Management peer comparison quartile position numbers were reviewed. Of note was the report of a tough quarter for Rainier on the fixed income side. However, Rainier's longer-term numbers remain strong and no changes are recommended at this time.

Audit

The Independent Auditor's Report provided by Hooper Cornell, P.L.L.C. was reviewed with no significant issues reported.

**4. Endowment Fund Performance and Update: Staffed by Matthew Haertzen, Investment Manager, EFIB and John Pickett, RBC Dain Rauscher**

**A. Dain Rauscher Reports**

John Pickett reported that the Endowment Fund's total portfolio is in-line with policy with fixed income and equities both outperforming the median. Total equity market value was reported at \$484,312,347 with fixed income reported at \$191,161,622 as of September 30, 2003.

Manager Summaries

John Pickett reported on the Active Manager Insight List from September 30, 2003. Of particular note is an underperformance by Lazard. Presently, RBC Dain Rauscher recommends that Lazard be placed on a "watch" list due to a variety of factors; namely, during the last several months, sector concentration has caused severe underperformance when compared to the benchmark and peer group. The lack of added value and several organizational changes prompted their recommendation. John Pickett advised EFIB that he and Matthew Haertzen are presently reviewing other investment managers and will present a recommendation to the Board in the first half of next year. Additionally, John reported that the search for a replacement for Strong Capital Management is underway and a recommendation is expected at the February board meeting. The assets formerly managed by Strong Capital are indexed in Russell 2000 Value I-Shares awaiting the completion of the search process.

**Chairman M. Dean Buffington recommended a departure from regular session at 11:05 a.m. to honor former EFIB staff member Mary Livengood. Regular session reconvened at 11:37 a.m.**

## **B. Staff Reports**

Matthew Haertzen reviewed the EFIB staff reports as included from September 30, 2003 and reported that the timber receipts are slightly above projections.

## **C. JFAC Presentation**

Matthew Haertzen reviewed the fiscal year 2005 Endowment Fund Investment Board's presentation to the Joint Finance and Appropriations Committee. Matthew advised the Board that EFIB is not required to present to JFAC on off-years and asked for a recommendation on the prudence of an optional presentation by the Endowment Fund during this legislative session. The Board recommended deferring the presentation until the 2005 legislative session if not required by decree but did feel that it may be worthwhile to make a presentation to the State Affairs Committees of the House and the Senate during the 2004 legislative session.

## **D. Legislative Priorities: Approved**

Matthew Haertzen reported on proposed legislation items for the First Regular Session of 2004. Matthew reviewed various language clarifications to Section 57-720, *Idaho Code*, to authorize the combination of endowment funds for investment purposes.

Additionally, Matthew reviewed proposed amendments to Section 1-2008, *Idaho Code*, Investment of Judges' Retirement Fund which allows the Judges' Retirement System to establish investment policy guidelines similar to EFIB and will also allow them to seek a custodian located outside the State of Idaho.

Chairman M. Dean Buffington recommended that the EFIB approve Matthew Haertzen to move forward and work with the appropriate parties to facilitate enactment of aforementioned legislative proposals. Motion by Parker Woodall, second by William Mitchell. The motion carried unanimously.

## **E. Treasury Inflation Protection Securities (TIPS)**

John Pickett reported that TIPS is an approved asset class with a range of 0-20% of the bond allocation, target of 10%, which equates to a maximum 6% of the total portfolio. The recommended investment strategy was to include a dollar cost average to reduce timing risk with \$5 million by December 31, 2003; March 31, 2004; June 30, 2004 and the remainder by September 30, 2004.

**Mr. Gavin Gee departed the regular session at 12:12 p.m. and was not participatory in the discussion or vote of the Audit Search**

**F. Audit Search to Appoint Balukoff: Approved**

The EFIB audit search report was reviewed with the audit committee recommendation to hire Balukoff Lindstrom and Company. Motion made by Parker Woodall to select Balukoff as the new auditors, second by William Mitchell. The motion carried unanimously.

**Mr. Gavin Gee joined the regular session at 12:27 p.m.**

**G. Custodian Search - Recommendation to Hire Northern Trust: Approved**

Connie Eshelman reported that there were seven RFP respondents to the EFIB custodian search. RBC Dain Rauscher Consultant, Brian Hayes, and Connie Eshelman met with and conducted a thorough interview with the clients of the three final candidates. Northern Trust and Bank of New York then delivered formal presentations to the EFIB staff, the EFIB Executive Committee, and RBC Dain Rauscher. After a sterling presentation, the EFIB Executive Committee made the recommendation to hire Northern Trust. The price between the two competitors was virtually identical. Representative William W. Deal made the motion to authorize a formal contract with Northern Trust, second by Senator Brad Little. The motion carried unanimously.

**H. Adopt Revised Investment Policy Statement: Approved**

Changes made to the asset allocation portion and the investment objectives of the policy were reviewed. John Taylor moved to adopt the revised policy, second by Bill Mitchell. The motion carried unanimously.

**I. Adopt Electronic Records Management Policy: Approved**

Matthew Haerten reviewed the EFIB Records Management Policy. Board recommendations included the addition of off-site storage in the policy. Motion was made by Parker Woodall to adopt the policy pending the recommended changes, second by Gavin Gee. The motion carried unanimously.

**J. Strong Capital Management (Discussion):**

Chairman M. Dean Buffington reported that EFIB terminated its relationship with Strong Capital Management per unanimous vote of the Executive Committee.

**K. Endowment Fund Payout and Earnings Reserve Levels (Public School Pay-out Recommendation to State Board of Land Commissioners): Approved**

Representative William W. Deal motioned, second by Gavin Gee to recommend to the State Board of Land Commissioners, a 4% public school pay-out for fiscal year 2005. The motion carried unanimously.

**5. Executive Session: B. To Consider and Advise Its Legal Representatives in Pending Litigation or Where There is a General Public Awareness of Probable Litigation [[Idaho Code § 67-2345\(1\)\(f\)](#)]**

The motion was made by Bill Mitchell, second by Gavin Gee to enter into Executive Session to receive an update from Matthew Haertzen on the WorldCom class action litigation. The role call vote was as follows:

M. Dean Buffington - Aye  
Representative William W. Deal - Aye  
Gavin Gee - Aye  
Tom Kealey - Aye  
Senator Brad Little - Aye  
Dr. Rick Miller - Aye  
William D. Mitchell - Aye  
John Taylor - Aye  
Parker G. Woodall - Aye

The motion was made by Parker Woodall, second by Gavin Gee to reconvene Regular Session at 1:40 p.m. The Worldcom update was received from Matthew Haertzen and no further action is required at this time.

**6. 2004 Meeting Dates:**

The 2004 meeting dates were amended as follows:

- Wednesday, February 18
- Tuesday, May 11 in tandem with the State Board of Land Commissioners and a combined Regular Session and Managers' Summit preceding
- Wednesday, August 25
- Wednesday, November 17

There being no further business to come before the Board, the motion was made by Gavin Gee, second by Representative William W. Deal to adjourn the meeting at 1:51 p.m. The motion carried unanimously.

